

North Memorial Health Care and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended December 31, 2019 and 2018,
Supplemental Schedules as of and for the
Year Ended December 31, 2019, and
Independent Auditors' Report

NORTH MEMORIAL HEALTH CARE AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
North Memorial Health Care
Minneapolis, Minnesota

We have audited the accompanying consolidated financial statements of North Memorial Health Care and its subsidiaries ("North Memorial"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to North Memorial's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of North Memorial's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Memorial and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations, changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Schedules

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules on pages 44–49 are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and are not a required part of the consolidated financial statements. These schedules are the responsibility of North Memorial’s management and were derived from and relate directly to the underlying accounting and other records used to prepare the 2019 consolidated financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the 2019 consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the 2019 consolidated financial statements or to the 2019 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the 2019 consolidated financial statements as a whole.

Deloitte & Touche LLP

May 19, 2020

NORTH MEMORIAL HEALTH CARE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 31,746,145	\$ 31,512,267
Patient accounts receivable, less allowances	105,589,811	109,580,414
Other receivables	21,136,782	22,682,273
Inventories of supplies	10,498,272	10,319,259
Prepaid expenses	9,900,680	10,353,052
Estimated third-party payor settlements	808,739	-
Assets limited as to use (Note 4)	2,008,180	1,831,187
Current assets held for sale (Note 5)	<u>31,104,532</u>	<u>-</u>
Total current assets	<u>212,793,141</u>	<u>186,278,452</u>
ASSETS LIMITED AS TO USE (Note 4):		
Board designated:		
Investments for capital improvements and other	338,711,597	291,757,258
Pending investment settlements receivable	<u>332,151</u>	<u>265,582</u>
Total board designated	339,043,748	292,022,840
Held by trustee under bond indenture agreement	2,832,730	2,764,442
Investments held for professional liability claims	9,678,002	6,827,754
Restricted investments	<u>9,412,739</u>	<u>7,592,689</u>
Total assets limited as to use	<u>360,967,219</u>	<u>309,207,725</u>
LAND, BUILDINGS, AND EQUIPMENT—Net (Note 6)	<u>259,600,163</u>	<u>285,203,884</u>
OPERATING LEASE ASSETS (Note 10)	<u>45,047,125</u>	<u>-</u>
OTHER ASSETS (Note 7)	<u>33,293,327</u>	<u>31,634,592</u>
TOTAL	<u>\$911,700,975</u>	<u>\$812,324,653</u>

(Continued)

NORTH MEMORIAL HEALTH CARE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2019 AND 2018

	2019	2018
LIABILITIES		
CURRENT LIABILITIES:		
Current maturities of long-term debt (Note 9)	\$ 13,274,614	\$ 13,431,578
Line of credit (Note 9)	-	1,500,000
Current operating lease liability (Note 10)	7,789,401	-
Current liabilities held for sale (Note 5)	3,589,765	-
Accounts payable	38,242,471	39,784,001
Deposit liability (Note 5)	16,000,000	-
Estimated third-party payor settlements	-	3,166,578
Accrued expenses:		
Salaries and benefits	24,245,459	24,620,167
Vacation pay	19,307,325	20,934,035
Other	<u>4,375,225</u>	<u>4,279,029</u>
Total current liabilities	126,824,260	107,715,388
OTHER LONG-TERM LIABILITIES (Note 8)	23,510,419	25,174,486
NONCURRENT OPERATING LEASE LIABILITY (Note 10)	42,448,636	-
LONG-TERM DEBT—Less current maturities (Note 9)	<u>209,299,555</u>	<u>222,425,770</u>
Total liabilities	<u>402,082,870</u>	<u>355,315,644</u>
COMMITMENTS AND CONTINGENCIES (Note 13)		
NET ASSETS:		
Without restrictions	494,186,456	444,537,201
With restrictions	<u>7,057,700</u>	<u>6,294,316</u>
Total net assets attributable to North Memorial	501,244,156	450,831,517
Noncontrolling interest in joint ventures	<u>8,373,949</u>	<u>6,177,492</u>
Total net assets	<u>509,618,105</u>	<u>457,009,009</u>
TOTAL	<u>\$911,700,975</u>	<u>\$812,324,653</u>

See notes to consolidated financial statements.

(Concluded)

NORTH MEMORIAL HEALTH CARE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
UNRESTRICTED REVENUE:		
Net patient service revenue	\$902,584,462	\$919,656,774
Other operating revenue	<u>60,295,864</u>	<u>52,437,704</u>
Total unrestricted revenue	<u>962,880,326</u>	<u>972,094,478</u>
EXPENSES:		
Salaries and benefits	562,799,535	569,950,105
Supplies	143,579,499	134,553,065
Professional fees	101,225,468	110,971,856
Depreciation and amortization	40,591,037	39,421,970
Maintenance and repairs	35,995,397	35,266,805
Patient service and other taxes	16,604,038	19,572,179
Interest	9,125,436	9,557,214
Building and equipment rental	20,511,321	19,836,762
Utilities	9,309,322	10,580,658
Insurance and other	<u>20,539,854</u>	<u>15,948,534</u>
Total expenses	<u>960,280,907</u>	<u>965,659,148</u>
INCOME FROM OPERATIONS	<u>2,599,419</u>	<u>6,435,330</u>
NONOPERATING INCOME (LOSS):		
Other nonoperating income (loss)	1,199,675	(1,084,369)
Investment income (loss)—net	<u>50,782,090</u>	<u>(12,073,927)</u>
Total nonoperating income (loss)	<u>51,981,765</u>	<u>(13,158,296)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	54,581,184	(6,722,966)
EQUITY CONTRIBUTION TO JOINT VENTURE	30,557	-
RESTRICTED CONTRIBUTIONS FOR CAPITAL ACQUISITIONS	611,735	9,970
NET CHANGE IN UNREALIZED GAIN (LOSS) ON INVESTMENTS OF THE FOUNDATION	1,025,236	(373,171)
DEFINED BENEFIT PENSION PLANS-RELATED CHANGES OTHER THAN NET PERIODIC EXPENSE	<u>2,222,000</u>	<u>930,452</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	58,470,712	(6,155,715)
DECREASE IN NET ASSETS ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>(8,821,457)</u>	<u>(8,193,716)</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS ATTRIBUTABLE TO NORTH MEMORIAL	<u>\$ 49,649,255</u>	<u>\$ (14,349,431)</u>

See notes to consolidated financial statements.

NORTH MEMORIAL HEALTH CARE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Without Restrictions	With Restrictions	Noncontrolling Interest in Joint Ventures	Total
NET ASSETS—January 1, 2018	\$458,886,633	\$6,594,341	\$ 6,683,776	\$472,164,750
Deficiency of revenues over expenses	(14,916,682)	-	8,193,716	(6,722,966)
Distributions paid to noncontrolling interest	-	-	(8,700,000)	(8,700,000)
Contributions received	-	1,027,396	-	1,027,396
Change in charitable remainder trust	-	(367,480)	-	(367,480)
Net assets released from restrictions used for operations	-	(873,090)	-	(873,090)
Net assets released from restrictions used for capital	9,992	(9,992)	-	-
Net investment income and realized gains	-	89,959	-	89,959
Net change in unrealized loss on investments of the Foundation	(373,194)	(166,818)	-	(540,012)
Defined benefit pension plans-related changes other than net periodic plan expense	<u>930,452</u>	<u>-</u>	<u>-</u>	<u>930,452</u>
Decrease in net assets	<u>(14,349,432)</u>	<u>(300,025)</u>	<u>(506,284)</u>	<u>15,155,741</u>
NET ASSETS—December 31, 2018	<u>444,537,201</u>	<u>6,294,316</u>	<u>6,177,492</u>	<u>457,009,009</u>
Excess of revenues over expenses	45,759,727	-	8,821,457	54,581,184
Distributions paid to noncontrolling interest	-	-	(6,625,000)	(6,625,000)
Equity contribution to joint venture	30,557	-	-	30,557
Contributions received	-	1,409,296	-	1,409,296
Change in charitable remainder trust	-	306,281	-	306,281
Net assets released from restrictions used for operations	-	(693,300)	-	(693,300)
Net assets released from restrictions used for capital	611,735	(611,735)	-	-
Net investment income and realized gains	-	319,924	-	319,924
Net change in unrealized gains on investments of the Foundation	1,025,236	32,918	-	1,058,154
Defined benefit pension plans-related changes other than net periodic plan expense	<u>2,222,000</u>	<u>-</u>	<u>-</u>	<u>2,222,000</u>
Increase in net assets	<u>49,649,255</u>	<u>763,384</u>	<u>2,196,457</u>	<u>52,609,096</u>
NET ASSETS—December 31, 2019	<u>\$494,186,456</u>	<u>\$7,057,700</u>	<u>\$ 8,373,949</u>	<u>\$509,618,105</u>

See notes to consolidated financial statements.

NORTH MEMORIAL HEALTH CARE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 52,609,096	\$ (15,155,741)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	39,201,777	39,247,097
Defined benefit pension plans-related changes other than net periodic expense	(2,222,000)	(930,452)
Net realized gains on investments and investment income	(15,781,848)	(18,373,491)
Net change in unrealized (gain) loss on investments	(36,632,987)	30,790,536
Loss on disposal of property and equipment	4,409,734	283,923
Change in beneficial interest in remainder trust	(306,281)	580,767
Equity gain on joint ventures—net of earnings distributions	(3,093,588)	(7,774,030)
Distributions paid to noncontrolling interest	6,625,000	8,700,000
Change in other operating elements:		
Patient accounts receivable	(4,431,966)	9,755,421
Other assets	(4,178,399)	(9,059,116)
Other liabilities	914,235	(5,196,551)
Total adjustments	<u>(15,496,323)</u>	<u>48,024,104</u>
Net cash provided by operating activities	<u>37,112,773</u>	<u>32,868,363</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land, buildings, and equipment	(32,908,605)	(26,749,579)
Proceeds from sale of buildings and equipment	77,499	2,467,700
Purchases of investments	(110,572,268)	(130,419,618)
Proceeds from sales of investments	111,472,890	128,176,134
Purchases of assets limited as to use	(176,993)	(125,481)
Deposit liability	16,000,000	-
Capital contributions to joint ventures—net of returns of capital	223,224	3,156,403
Purchases of funds held by trustee	(24,240,434)	(26,639,485)
Sales of funds held by trustee	<u>24,172,148</u>	<u>26,573,580</u>
Net cash used in investing activities	<u>(15,952,539)</u>	<u>(23,560,346)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(12,762,270)	(11,990,421)
Proceeds from long-term debt	-	12,000,000
Retirement of long-term debt	-	(6,703,798)
Payments from line of credit	(1,500,000)	(3,350,000)
Distributions paid to noncontrolling interest	(6,625,000)	(8,700,000)
Other	<u>137,907</u>	<u>999,105</u>
Net cash used in financing activities	<u>(20,749,363)</u>	<u>(17,745,114)</u>
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	410,871	(8,437,097)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of year	<u>33,343,454</u>	<u>41,780,551</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of year	<u>\$ 33,754,325</u>	<u>\$ 33,343,454</u>

(Continued)

NORTH MEMORIAL HEALTH CARE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for income taxes paid—net	<u>\$ 339,857</u>	<u>\$ 164,602</u>
Cash paid for interest	<u>\$ 9,640,063</u>	<u>\$ 9,676,068</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION—		
Capital expenditures funded through accounts payable	<u>\$ 327,344</u>	<u>\$ 670,833</u>
RECONCILIATION TO CONSOLIDATED STATEMENTS OF FINANCIAL POSITION:		
Cash and cash equivalents	\$ 30,908,083	\$ 30,685,769
Restricted cash included in cash and cash equivalents	838,062	826,498
Restricted cash included in assets limited as to use—current portion	<u>2,008,180</u>	<u>1,831,187</u>
Cash, cash equivalents, and restricted cash	<u>\$ 33,754,325</u>	<u>\$ 33,343,454</u>
See notes to consolidated financial statements.		(Concluded)

NORTH MEMORIAL HEALTH CARE AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

North Memorial Health Care ("North Memorial") is a nonprofit, tax-exempt Minnesota health services corporation. North Memorial consists of two hospitals, an ambulance and air care division, and a clinic division and has also created partnerships across numerous healthcare joint venture activities. North Memorial employs over 350 providers in various specialties including family medicine, oncology, surgery, and cardiology, with a medical staff of over 1,500 providers.

North Memorial Health Hospital in Robbinsdale, MN, is an acute care hospital that has a licensed capacity of 518 beds and offers a broad range of inpatient and outpatient services, including emergency and Level I trauma care, obstetrical care, high-risk maternity services, Level III neonatal intensive care, cardiovascular services, acute psychiatric, and rehabilitation services, as well as general medical and surgical care.

Maple Grove Hospital Corporation (MGH) is jointly owned by North Memorial (75% owner) and Fairview Health Services ("Fairview") (25% owner). MGH is a Minnesota nonprofit, tax-exempt corporation, which owns and operates a hospital with a licensed capacity of 130 beds. MGH provides emergency, obstetrical care, high-risk maternity services, Level II neonatal intensive care, and general medical and surgical care.

North Memorial's ambulance and air care division serves regions across Minnesota and western Wisconsin. This service currently has more than 125 ambulances servicing 9 regions with 25 bases and 9 helicopters based out of 7 locations.

Through December 31, 2019, North Memorial owns and operates a clinic division that employs over 225 providers supporting primary, specialty care, and hospice services which compliment many independent clinic group affiliations that refer a majority of their business to North Memorial.

Basis of Accounting—The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Principles of Consolidation—The consolidated financial statements include the accounts of North Memorial, its wholly owned subsidiaries; Oakdale Health Enterprises, Inc. (OHE); Oakdale Medical Center, LLC (OMC); Associated Health Assurance Ltd. (AHAL); North Memorial Clinics, LLC; Minnetonka Ambulatory Surgery Center, LLC ("Minnetonka ASC"); and the North Memorial Foundation (the "Foundation"). In addition, the consolidated financial statements include the accounts of MGH. All intercompany balances and transactions have been eliminated in consolidation. Investments in joint ventures are accounted for under the equity method if significant influence is demonstrated.

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimated amounts in the consolidated financial statements include accruals for contractual allowances, allowances for uncollectible accounts receivable, employee health and dental insurance, pension obligations, and other items measured at fair value, including certain investments. Actual results could differ from these estimates.

Cash and Cash Equivalents—North Memorial considers all operating investments purchased with an original maturity of three months or less and classified as current assets not limited to use to be cash and cash equivalents. Cash and cash equivalents held for investment purposes are classified as assets limited as to use on the consolidated statements of financial position.

Concentration of Risk—North Memorial has 10 labor contracts covering 34.7% of its labor force. Three of these contracts covering approximately 2% of total employees expire in 2020.

Other Receivables—Other receivables consist primarily of other nonpatient accounts receivable related to contract services.

Inventories of Supplies—Inventories consist principally of medical and surgical supplies and pharmaceuticals and are stated at the lower of cost (using the average-cost method) or net realizable value.

Assets and Liabilities Held for Sale—North Memorial has classified certain assets as assets held for sale in the consolidated statements of financial position when the assets have met applicable criteria for this classification. North Memorial has also classified as held for sale those liabilities related to assets held for sale.

Investments and Investment Income—Investments in equity securities with readily determined fair values and all investments in debt securities are reported at fair value based upon quoted market prices in active markets or other observable inputs and are classified as trading securities. Investments in the alternative investment, the real estate investment trust (REIT), and the collective bond fund are reported at net asset value (NAV) reported by the respective fund, which approximates fair value. Purchases and sales of securities are reflected on a trade-date basis, and dividends are recorded on the ex-dividend date.

Investment income is recorded on the accrual basis and included in nonoperating income (loss)—net, unless the income or loss is restricted by the donor or law.

Land, Buildings, and Equipment—Land and improvements, buildings, and equipment are carried at cost. Donated items are recorded at fair value on the date of the contribution. Depreciation is calculated over the estimated useful lives of the assets using the straight-line method and is recorded as follows:

Land improvements	3–25 years
Buildings and improvements	10–30 years
Equipment and fixtures	3–10 years

Interest cost (net of interest income on investments held by trustee under bond indenture agreement) incurred on borrowed funds during the construction of capital assets is capitalized as a component of the cost of acquiring those assets.

North Memorial capitalizes costs associated with software purchases (included within equipment and fixtures) and amortizes the costs using the straight-line method over the software's useful life. For assets held under capital lease, depreciation is recorded over the lesser of the useful life or the lease term.

Impairment of Long-Lived Assets—Management periodically reviews the carrying value of long-lived assets for potential impairment by comparing the carrying value of these assets to the estimated undiscounted future cash flows expected to result from the use of these assets. Should the sum of the expected future net cash flows be less than the carrying value, an impairment loss would be recognized.

Pending Investment Settlements Receivable and Payable—Purchases and sales of securities are reflected on a trade-date basis. A receivable or payable is recorded for the proceeds to be paid or collected as of the settlement date of the securities purchased or sold.

Right-of-Use Asset and Operating Lease Liability—North Memorial leases various facilities and equipment under noncancelable operating leases expiring at various dates through January 2031 and records the corresponding right-of-use assets and operating lease liabilities on the consolidated statements of financial position. These leases include clinic assets that will be used by Blaze Health through subleasing and assignment arrangements between North Memorial and Blaze Health, whereby North Memorial ultimately remains financially liable for the lease obligations. Right-of-use assets are calculated as the lease liabilities, plus any prepaid lease payments and initial direct costs, less any lease incentives. Renewal options to extend the lease term that are reasonably certain to be exercised are included in the measurement of leases. Operating lease liabilities are calculated as the present value of the remaining lease payments, discounted at either 4.9% or 5.0% for facilities and 2.0% for equipment. North Memorial excludes operating leases with terms of 12 months or less and includes any fixed nonlease components in lease measurement.

Net Patient Service Revenue—North Memorial is a participating provider with Medicare and Medicaid and has contractual arrangements with other third-party commercial payors that provide for payments to North Memorial at amounts different from its established rates. Payments for services are based on prospectively determined rates per discharge, reimbursed costs, discounted charges, or per diem payments, negotiated between North Memorial and certain managed care organizations. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services provided, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are provided and adjusted in future periods as final settlements are determined.

Other Operating Revenue—Other operating revenue includes rent revenue, rural physician contracts, cafeteria revenue, assets released from restrictions used for operations, parking ramp revenue, pharmacy revenue, management fee revenue, and investment income on trustee-held investments and investments held for professional liability claims. Revenue is recognized upon delivery of service. Income on health care-related joint ventures is recorded as other operating revenue in the consolidated

statements of operations. Income on all other joint ventures is recorded as equity earnings on joint ventures in nonoperating income in the consolidated statements of operations.

Investment Income—Investment income from board-designated investments, unrestricted investments, and temporarily restricted investments (where donor restriction does not extend to the income) is generally recorded as unrestricted nonoperating income, while earnings and losses from restricted investments are recorded as changes in restricted net assets as specified by donors in the consolidated statements of changes in net assets.

Net Assets—Net assets not subject to donor imposed stipulations are reflected as net assets without donor restrictions. Net assets with donor restrictions are those whose use has been limited by donors to a specific purpose, period of time, or that must be maintained in perpetuity. Gifts and other resources with restrictions are recorded as direct additions to net assets with donor restrictions.

When a restriction is met, or a donor-imposed restriction changes, net assets are reclassified and reported as net assets released from restrictions within other operating revenue, nonoperating expense, or releases for acquisitions of property and equipment. Donor-restricted gifts whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

Charity Care—North Memorial provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because North Memorial does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Total cost of providing charity care was approximately \$9.0 million and \$11.1 million for 2019 and 2018, respectively. Charges for charity care patients are converted to estimated total cost by utilizing a cost-to-charge ratio.

Tax Status—North Memorial, including its wholly owned subsidiaries (except OHE), and MGH have been determined by the Internal Revenue Service to be tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the "Code"). AHAL, under current Bermuda law, is not required to pay taxes in Bermuda on either income or capital gains. AHAL has received an undertaking from the Bermuda government that, in the event of income or capital gains taxes being imposed, AHAL will be exempted from such taxes until the year 2035.

North Memorial is engaged in certain activities that result in unrelated business income. North Memorial recorded an income tax expense of approximately \$97,000 and \$105,000 in 2019 and 2018, respectively, which is included with patient service and other taxes in the consolidated statements of operations. North Memorial evaluates its uncertain positions on an annual basis, and there have been no uncertain tax positions recorded in 2019 or 2018.

Derivative Instruments and Hedging Activities—North Memorial makes use of certain futures contracts, puts, and calls to manage its investment portfolio, which are included in investments and recorded at NAV.

For each investment manager, futures positions are purchased in the relevant index in an amount equal to the residual cash position within that investment manager's investment balance. Upon entering into a financial futures contract, North Memorial is required to

pledge to the broker an amount of cash, US government securities, or other assets, equal to a certain percentage of the contract amount (initial margin deposit). North Memorial recognizes a gain or loss equal to the daily variation margin, which is recorded in investment income. Should market conditions move unexpectedly, North Memorial may not achieve the anticipated benefits of the financial futures contracts and may realize a loss. Individual managers are allowed to use futures to replicate an index, but not as a speculative tool. North Memorial contracts with a defensive equity manager who uses direct purchases and index futures contracts, and then purchases or sells puts and calls to dampen volatility. All futures, puts, and calls are marked to market and may result in gains or losses.

Excess of Revenue over Expenses—The performance indicator is the excess of revenue over expenses. Excess of revenue over expenses includes all changes in unrestricted net assets except for assets acquired using contributions, which were restricted by the donors; income from restricted investments; pension-related changes other than net periodic pension costs; and distributions or contributions with noncontrolling interests.

Subsequent Events—North Memorial has evaluated subsequent events through May 19, 2020, the date this report was issued, and the following significant events have been identified.

On January 1, 2020, North Memorial officially formed a joint venture with Blue Cross Blue Shield of Minnesota (“Blue Cross Blue Shield”) after transferring 49% of the membership interests of Blaze Health, LLC (“Blaze Health”) to Blue Cross Blue Shield and retaining 51% of the membership interests. The goal of this joint venture, which comprises North Memorial’s primary care and specialty clinics, is to make health care more accessible, more affordable, and less complicated. North Memorial will account for this joint venture under the equity method of accounting due to Blaze Health having substantive participating rights that overcome the presumption of consolidation by North Memorial.

In March 2020, the World Health Organization declared the outbreak of novel coronavirus disease (“COVID-19”) as a pandemic, and North Memorial expects its operations in all locations to be affected as the virus continues to proliferate. North Memorial continues to adjust certain aspects of its operations to protect its employees and customers while still meeting critical health care needs across its service region. North Memorial has been active in applying for all available state and federal relief programs to further mitigate the financial impact to operating margin and cash flows. North Memorial will continue to monitor the situation closely and it is possible that it will implement further measures. Considering the uncertainty as to the severity and duration of the pandemic, the impact on its revenues, profitability, and financial position is currently uncertain.

New Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which provides a framework for the recognition of revenue, with the objective that recognized revenue properly reflect amounts an entity is entitled to receive in exchange for goods and services. This guidance, which includes additional disclosure requirements regarding revenue, cash flows, and obligations related to contracts with customers, was adopted by North Memorial on January 1, 2018. North Memorial adopted this recognition framework using the retrospective method. The most significant impact is reflected in the presentation of the consolidated statements of operations, where the provision for bad debts has been reflected as a direct reduction to revenues and will not be presented as a separate line item. The adoption did not have a significant impact on the recognition of net patient service revenue.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is a comprehensive rewriting of the lease accounting guidance, which aims to increase comparability and transparency with regard to lease transactions. This guidance was adopted by North Memorial on January 1, 2019. The primary change was the recognition of lease assets for the right of use of the underlying asset and lease liabilities for the obligation to make payments by lessees on the balance sheet for leases currently classified as operating leases. The ASU, as amended, also requires increased qualitative disclosure about leases in addition to quantitative disclosures currently required. Upon adoption, companies are required to either apply a modified retrospective transition approach, or recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption with no restatement of prior-period financial statements. North Memorial elected the modified retrospective transition approach. The ASU also provides a practical expedient, which allows companies to continue to account for existing leases under the prior guidance unless a lease is modified, other than the requirement to recognize the right-of-use asset and lease liability for all operating leases. This ASU permits companies to elect certain practical expedients upon adoption, and at adoption, North Memorial elected such practical expedients related to, among other things, lease classification (in which existing leases classified as operating leases under current GAAP are classified as an operating lease under the new ASU, and existing leases classified as a capital lease under current GAAP are classified as a finance lease under the new ASU), nonlease components (in which nonlease components associated with a lease and paid by North Memorial to the lessor, such as property taxes, insurance, and maintenance, are treated as a lease component and considered part of minimum lease rent payments), and short-term leases (in which leases with an original term of 12 months or less are excluded from the recognition requirements of the new ASU). North Memorial has included this information in its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, which simplifies and improves how not-for-profit entities classify net assets as well as the information presented in the financial statements and notes about liquidity, financial performance, and cash flows. This guidance was effective for North Memorial beginning January 1, 2018. North Memorial has included this information in its consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*, which amends ASC 230 providing clarifying guidance on the presentation of restricted cash in the statement of cash flows. This guidance was effective for North Memorial beginning January 1, 2019 and has been applied as a retrospective transition method to each period presented as prescribed. As a result of the standard, North Memorial has included restricted cash included in cash and cash equivalents and in assets limited as to use with cash and cash equivalents when reconciling the beginning of year and end of year amounts shown on the statement of cash flows.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires an employer to report the service cost component in the same line item as other compensation costs arising from services rendered by employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented separately from the service cost component and outside income from operations. This guidance was effective for North Memorial on January 1, 2018 and did not significantly affect the consolidated financial statements.

In 2017, the FASB issued ASU No. 2017-01, *Business Combinations*, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of businesses. In addition, the FASB issued *Not-For-Profit Entities—Consolidation* (ASU No. 2017-02), to clarify when a not-for-profit entity that is a general or limited partner should consolidate a for-profit limited partnership or similar legal entity. North Memorial has evaluated and concluded that ASU No. 2017-01 and ASU No. 2017-02 do not apply or will not significantly impact its consolidated financial statements.

2. LIQUIDITY AND AVAILABILITY OF FUNDS

North Memorial's goal is to maintain financial assets to meet its operating obligations. As of December 31, 2019, cash and equivalents were approximately \$31,700,000 and long-term investments were \$339,000,000. As part of its liquidity plan, operating cash is invested in short-term investments, including money market accounts and North Memorial maintains a \$25,000,000 line of credit, as discussed in more detail in Note 8. As of December 31, 2019, \$25,000,000 remained available on North Memorial's line of credit.

North Memorial has certain board-designated investments and donor-restricted assets limited to use, which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information below for financial assets available to meet general expenditures within one year. North Memorial has other assets limited to use for donor-restricted purposes, debt service, and for the professional and general liability captive insurance program. Additionally, certain board-designated assets are designated for future capital expenditures. These assets limited to use, which are more fully described in Notes 4 and 14, are not available for general expenditure within the next year; however, the board-designated amounts could be made available, if necessary.

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 31,746,145	\$ 31,512,267
Accounts receivable—net	105,589,811	109,580,414
Other receivables	21,136,782	22,682,273
Assets limited as to use:		
Board-designated	339,043,748	292,022,840
Funds held by trustee	2,832,730	2,764,444
Assets limited as to use—current portion	2,008,180	-
Investments held for professional liability claims	9,678,002	8,658,941
Restricted investments	<u>9,412,739</u>	<u>7,592,689</u>
Total financial assets	<u>521,448,137</u>	<u>474,813,868</u>
Less amounts not available to be used within one year:		
Restricted cash	(838,082)	(826,498)
Board-designated	-	(19,016,073)
Funds held by trustee	(2,832,730)	(2,764,444)
Assets limited as to use—current portion	(2,008,180)	-
Investments held for professional liability claims	(9,678,002)	(6,827,754)
Restricted investments	<u>(9,412,739)</u>	<u>(7,592,689)</u>
Financial assets not available to be used within one year	<u>(24,769,733)</u>	<u>(37,027,458)</u>
Financial assets available to meet general expenditures within one year	<u>\$496,678,404</u>	<u>\$437,786,410</u>

3. NET PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

Net patient service revenue is reported at estimated net realizable amounts from patients, residents, third-party payors, and others that North Memorial expects to receive in exchange for providing patient care. North Memorial determines performance obligations based on the nature of the services provided. Revenue is recognized when those services are rendered, and the patient or third-party payor is billed usually within several days of service or discharge. For services provided over a period of time, such as inpatients receiving acute care services, revenue recognition begins when the patient is admitted and concludes at the time of discharge. Remaining performance obligations relating to inpatient acute care services as of December 31, 2019, will be satisfied in full in 2020. As a result, North Memorial has applied the optional exemption provided in Accounting Standards Codification (ASC) 606-10-50-14(a) and is not required to disclose these amounts.

The initial estimate of net patient service revenue is determined by reducing the gross charge by contractual adjustments arising from various reimbursement arrangements with third-party payors and implicit price concessions (bad debts) provided to self-pay patients

for their respective patient responsibility. As a practical expedient, North Memorial has elected to account for third-party payor and patient contracts as collective groups rather than individual contracts. The financial statement effects of using this practical expedient are not materially different than an individual contract approach.

North Memorial grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. North Memorial participates in Medicare, Medicaid, Blue Cross, and other third-party payor programs. Contractual adjustments are accrued on an estimated basis in the period in which the services are rendered based on the respective contractual agreements and historical experience. Certain reimbursement arrangements are subject to retroactive audit, and as a result, there is a reasonable possibility that recorded estimates could change upon audit. Differences between amounts estimated and final settlements are included in operations in the year in which the differences become known.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which North Memorial estimates the corresponding ability to collect based on historical experience, current market conditions, and information gathered based on the patient's ability to pay. Subsequent changes as a result of adverse changes in the patient's ability to pay are recorded as bad debt expense within operating expenses. Subsequent changes to the allowance for bad debts estimates for the years ended December 31, 2019 and 2018, were not material.

North Memorial recognizes that revenues and receivables from government agencies are significant to its operations but does not believe there are significant credit risks associated with these government agencies. In 2019, net revenue from the top three third-party payors accounted for 17.7%, 15.6%, and 9.3% of net patient service revenue. In 2018, net revenue from the top three third-party payors accounted for 16.5%, 15.1%, and 13.6% of net patient service revenue.

Net patient service revenue for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Medicare	\$287,743,136	\$296,966,265
Medicaid	127,945,688	136,843,062
Commercial	363,215,908	415,764,536
Other	85,990,325	45,129,117
Self-pay and other	<u>37,689,405</u>	<u>24,953,794</u>
Net patient service revenue	<u>\$902,584,462</u>	<u>\$919,656,774</u>

North Memorial grants credit to its patients who are mostly insured under third-party payor agreements. The mix of receivables, net of contractual allowances from patients and third-party payors as of December 31, 2019 and 2018, was as follows:

	2019	2018
Medicare	14 %	14 %
Medicaid	2	3
Commercial	45	48
Self-pay and other	<u>39</u>	<u>35</u>
	<u>100 %</u>	<u>100 %</u>

4. ASSETS LIMITED AS TO USE

Assets limited as to use include assets held by trustees under provisions of certain bond indentures, assets related to restricted net assets, assets held for professional liability claims, collateral held for securities lending, and assets that have been designated by governing boards for replacement and expansion of buildings and equipment.

Investments in marketable securities are generally carried at fair value based on quoted market prices and net unrealized gains and losses on investments are included in investment income—net in the consolidated statements of operations. Realized gains and losses on sales of investments are recorded using the average cost method. The investments in the alternative investment, the REIT, and the collective bond fund are recorded at fair value based on the NAV per share. Net earnings on these investments are included in investment income—net in the consolidated statements of operations.

North Memorial does have restricted investments that are to be used for specific purposes. These investments are primarily cash and cash equivalents, equity securities, and mutual funds.

North Memorial invests in various securities, including equity securities, US government and agency securities, corporate and foreign bonds, mutual funds, and derivatives, such as futures contracts. These derivative positions are not designated as hedges for accounting purposes. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities could occur and such changes could materially affect the value of investments.

Investments at fair value as of December 31, 2019 and 2018, were as follows:

	2019	2018
Marketable securities:		
Cash and cash equivalents	\$ 8,665,181	\$ 6,280,257
Equity securities	33,381,988	26,428,123
Equity mutual funds	118,625,401	95,800,685
Bond mutual funds	106,460,661	96,411,254
Marketable alternatives	65,939,017	57,186,565
REIT	29,463,615	28,633,998
Pending investment settlements receivable	332,151	265,582
Accrued interest	<u>107,385</u>	<u>32,448</u>
 Total	 <u><u>\$362,975,399</u></u>	 <u><u>\$311,038,912</u></u>
 Reported as:		
Assets limited as to use—current—required for current liabilities	\$ 2,008,180	\$ 1,831,187
Assets limited as to use—long term	<u>360,967,219</u>	<u>309,207,725</u>
 Total assets limited as to use	 <u><u>\$362,975,399</u></u>	 <u><u>\$311,038,912</u></u>

North Memorial has elected the fair value option for its debt and equity securities to improve financial reporting. The election of the fair value option results in these securities being recorded at fair value, with unrealized gains and losses being recorded in investment income—net in the consolidated statements of operations.

Total return on unrestricted investments and its classification in the consolidated statements of operations and changes in net assets for the years ended December 31, 2019 and 2018, are summarized as follows:

	2019	2018
Return on investments:		
Other operating revenue	<u>\$ 1,299,727</u>	<u>\$ 101,195</u>
 Nonoperating income:		
Dividend and interest income	5,611,195	4,511,062
Earnings on other investments	161,726	129,411
Net realized gains on sales of investments	9,401,419	13,191,769
Net change in unrealized gains (losses) on investments	<u>35,607,750</u>	<u>(29,906,169)</u>
 Total nonoperating income (loss)	 <u><u>50,782,090</u></u>	 <u><u>(12,073,927)</u></u>
 Total gain (loss) on unrestricted investments	 <u><u>\$52,081,817</u></u>	 <u><u>\$(11,972,732)</u></u>

Investment income—net in the consolidated statements of operations is net of investment management fees of \$770,974 and \$642,440 during 2019 and 2018, respectively.

5. ASSETS AND LIABILITIES OF BUSINESS HELD FOR SALE AND DEPOSIT LIABILITY

In the fourth quarter of 2019, North Memorial entered into a definitive agreement to form Blaze Health with Blue Cross Blue Shield, which would become effective January 1, 2020. As part of the agreement, North Memorial would contribute assets of certain clinics to Blaze Health as of December 31, 2019 and receive from Blue Cross Blue Shield the agreed upon purchase price of \$16,000,000, which represents a deposit liability. North Memorial has aggregated and classified the assets and liabilities directly associated with the agreement as held for sale and has reported them separately on its consolidated balance sheet as of December 31, 2019. The assets and liabilities held for sale were as follows:

December 31, 2019

Assets

Current assets:

Patient accounts receivable, less allowances	\$ 8,022,568
Other receivables	4,554,521
Prepaid expenses	<u>882,926</u>

Total current assets	13,460,015
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Land, buildings, and equipment	15,303,213
Other assets	<u>2,341,304</u>

Total assets held for sale	<u><u>\$31,104,532</u></u>
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Liabilities

Current liabilities:

Accounts payable	\$ 769,933
Accrued expenses	<u>2,819,832</u>

Total liabilities held for sale	<u><u>\$ 3,589,765</u></u>
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6. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment as of December 31, 2019 and 2018, consisted of the following:

	2019	2018
Land and land improvements	\$ 24,284,096	\$ 24,776,380
Buildings and improvements	370,495,950	386,847,670
Equipment and fixtures	<u>385,636,949</u>	<u>394,406,333</u>
Total land, buildings, and equipment	780,416,995	806,030,383
Less accumulated depreciation	<u>(534,242,218)</u>	<u>(530,193,489)</u>
Land, buildings, and equipment—net	246,174,777	275,836,894
Construction in progress	<u>13,425,386</u>	<u>9,366,990</u>
Total	<u>\$ 259,600,163</u>	<u>\$ 285,203,884</u>

North Memorial recorded depreciation expense of \$39,065,369 and \$39,110,690 for the years ended December 31, 2019 and 2018, respectively.

7. OTHER ASSETS

Other assets as of December 31, 2019 and 2018, consisted of the following:

	2019	2018
Investments in joint ventures—health care	\$21,196,015	\$18,325,651
Investments in joint ventures—non-health care	852,250	852,250
Cash surrender value of life insurance policies and deferred compensation plan assets	179,835	331,441
Investment in land	1,692,266	1,692,266
Goodwill	3,607,000	5,598,304
Intangible assets	625,000	750,000
Beneficial interest in remainder trust	801,211	494,930
Insurance security deposit	<u>4,339,750</u>	<u>3,589,750</u>
Total	<u>\$33,293,327</u>	<u>\$31,634,592</u>

Deferred compensation plan assets consist of mutual funds and are recorded at fair value, which is based on quoted market prices.

8. OTHER LONG-TERM LIABILITIES

Other long-term liabilities as of December 31, 2019 and 2018, consisted of the following:

	2019	2018
Professional liability and other accrued claims—long term (Note 11)	\$ 6,972,450	\$ 6,921,875
Pension and benefit obligation, including net benefit pension obligation—long term	15,936,800	17,652,611
Multicare note payable	550,000	600,000
Pending investment settlements payable	<u>51,169</u>	<u>-</u>
Total	<u>\$23,510,419</u>	<u>\$25,174,486</u>

9. LONG-TERM DEBT

Long-term debt as of December 31, 2019 and 2018, consisted of the following:

	2019	2018
Maple Grove Hospital Healthcare Facilities Revenue Bonds, Series 2017, 3.0% to 5.0%	\$111,650,000	\$115,580,000
City of Robbinsdale Series 2017A, 2.9%, maturing in variable installments from \$2,310,000 to \$5,010,000 through 2026	30,395,000	34,640,000
City of Robbinsdale Series 2017B, 2.9%, maturing in variable installments from \$1,080,000 in 2019 to \$1,370,000 in 2026	8,675,000	9,755,000
Bremer Promissory Note	10,801,790	11,760,008
Minnetonka ASC Equipment Note, 4.35%, maturing in increasing monthly installments through 2020	211,742	621,403
Health care facilities revenue bonds, Series 2015, 4.0% to 5.0%, maturing in increasing installments from \$1,175,000 in 2019 to \$3,725,000 in 2035	40,480,000	41,655,000
OMC mortgage, 2.965%, principal and interest payments due monthly through October 2032	11,020,227	11,625,788
Capital lease obligations	-	358,832
Unamortized premium on Series 2015 bonds	2,949,014	3,137,249
Unamortized premium on MG Series 2017 bonds	8,188,374	8,658,955
Deferred financing costs	<u>(1,796,978)</u>	<u>(1,934,887)</u>
 Total long-term debt	 222,574,169	 235,857,348
 Less current maturities of long-term debt	 <u>(13,274,614)</u>	 <u>(13,431,578)</u>
 Long-term portion, less unamortized discount and debt issuance costs	 <u>\$209,299,555</u>	 <u>\$222,425,770</u>

North Memorial, through a master trust indenture originally dated in 1993, created the Obligated Group, which consists solely of North Memorial Health Hospital. The Obligated Group has pledged and assigned revenue, accounts receivable, and all proceeds therefrom, whether cash or noncash, for payment of all obligations of the Obligated Group issued under this master indenture and all supplemental indentures. The Obligated Group must meet a certain financial ratio covenant and is limited in the amount of additional debt it may incur. North Memorial was in compliance with the financial ratio covenant within this agreement as of December 31, 2019 and 2018.

The City of Robbinsdale, Minnesota on behalf of North Memorial, issued a private placement for Health Care Facilities Revenue Bonds, Series 2017A and B, in the amounts of \$38,870,000 and \$10,830,000, respectively. The proceeds of the Series 2017A and B bonds were loaned to North Memorial pursuant to a loan agreement with the City of Robbinsdale dated December 5, 2017. The proceeds were used to refund the Series 2011A

and B bonds, of which the Series 2011A was due in full on May 1, 2018. The Series 2017A and B matched the maturities of the Series 2011A and B issue and no new funds were borrowed other than cost of issuance. The Series 2011A and B bonds were issued at \$60,000,000 and \$15,000,000, respectively, and had maturities up to 15 years with an effective interest rate of 4.53% and 4.74%, respectively. The Series 2017A and B bonds mature on May 1, 2026, with an effective interest rate of 2.89%.

In May 2017, the City of Maple Grove, Minnesota, issued Health Care Facilities Revenue bonds, Series 2017 on behalf of MGH in the aggregate amount of \$119,390,000. The proceeds of the Series 2017 bonds were loaned to MGH pursuant to a loan agreement dated May 25, 2017, with the City of Maple Grove. The 2017 issue proceeds were used to refund the Series 2007 bonds, which were secured by a pledge of revenues of MGH, and the guarantees of North Memorial and Fairview, who had guaranteed 75% and 25%, respectively, of MGH's obligations under the bonds. The 2017 issue matched the maturities of the 2007 issue and no new funds were borrowed other than cost of issuance. The 2007 Series bonds were issued at \$143,605,000 and had maturities up to 30 years with an effective interest rate of 5.12%. The 2017 Series bonds have maturities up to 20 years with an effective interest rate of 3.57%.

In May 2006, OMC entered into a \$17,200,000 taxable mortgage. The proceeds, along with other available funds, were used to build a medical office building in Maple Grove, Minnesota. The interest rate is reset each 60 months at the five-year US Constant Maturity Treasury Index, plus 212.5 basis points. The interest rate was reset during 2018 from 2.965% to 4.745%. Principal payments are amortized based on the initial interest rate over a period of 25 years.

During 2015, North Memorial opened a revolving \$25,000,000 line of credit to be used for backup liquidity needs and general working capital. The line of credit bears interest at the London Inter-Bank Offered Rate (LIBOR), plus 0.9% and is secured by gross revenue and property. The amount outstanding was \$0 and \$1,500,000 as of December 31, 2019 and 2018, respectively. As of the date of this report, outstanding borrowings totaled \$0.

During September 2016, OMC entered into a \$12,000,000 promissory note (the "Note"). The proceeds were requested against the Note to fund the costs of renovation and improvements of medical office buildings located in Robbinsdale. Borrowings on the Note occurred as draw requests and were submitted to the lender for work completed to date. During the construction phase, interest was calculated at the one-month LIBOR, plus 1.90 basis points (4.94% at December 31, 2018), with interest payments due monthly beginning October 1, 2016. Effective September 14, 2018, the funding deadline passed and the Note was refinanced. The proceeds issued at \$12,000,000 were used to pay off the Note at an effective interest rate of 4.94%. Principal payments are amortized based on the initial interest rate over a period of 10 years.

In May 2015, Minnetonka ASC entered into a \$1,659,450 equipment note. Borrowings have been used to fund the purchase of equipment used in clinic operations located in the City of Minnetonka. The note is to be repaid in equal blended monthly installments of principal and interest in an amount sufficient to fully amortize the outstanding principal over a five-year period. The interest rate is fixed over the term of the note at 4.35%. The note is guaranteed by North Memorial.

Scheduled maturities on long-term debt, net as of December 31, 2019, are as follows:

**Years Ending
December 31**

2020	\$ 12,615,798
2021	12,861,118
2022	13,328,231
2023	13,854,718
2024	14,424,907
Thereafter	<u>146,148,987</u>
Total	<u>\$213,233,759</u>

10. LEASES

Effective January 1, 2019, North Memorial adopted ASC Topic 842, *Leases*, the new lease accounting standard published by the FASB (see Note 1).

North Memorial elected to apply the effective date transition method as of January 1, 2019, adoption date. Comparative periods prior to the adoption of the new standard have not been restated and are reported under the legacy guidance ASC Topic 840, *Leases*. North Memorial elected the package of practical expedients in the transition guidance, which permits North Memorial not to reassess, under the new standard, prior conclusions about lease identification, lease classification, and initial direct costs. North Memorial also elected to use the practical expedient to not separate lease and nonlease components for all current lease classes. North Memorial elected not to use the practical expedient of using hindsight to determine the lease term and in assessing impairment of the right-of-use assets. North Memorial elected the short-term lease exemption for leases that have a lease term of 12 months or less. For leases that qualify for the short-term exemption, North Memorial will not recognize a right-of-use asset or liability and will recognize those lease expenses on a straight-line basis over the lease term.

The adoption of the standard resulted in the recognition of operating lease assets and liabilities of \$51,800,000 and \$56,600,000, respectively, as of January 1, 2019. The \$4,800,000 difference can be attributed to unamortized tenant improvement allowance balances. The adoption of the standard did not have a material impact on results of operations or cash flows.

North Memorial lease agreements are primarily related to the occupancy of office space, garages, hangars, and equipment. As of December 31, 2019, all North Memorial leases were classified as operating leases. The exercise of a lease renewal option is at North Memorial's sole discretion. The lease term includes the initial contractual term as well as any options to extend the lease when it is reasonably certain that North Memorial will exercise that option. North Memorial lease agreements do not contain any residual value guarantees or material restrictive covenants.

North Memorial recognizes a lease liability for the obligation to make lease payments arising from the lease and a related asset for the right to use the underlying asset for the lease term. The lease liability is measured based on the present value of lease payments over the lease term, and the asset is measured based on the value of the lease liability,

less any unamortized tenant improvement allowance balances. As the implicit interest rate in North Memorial lease agreements are not readily identifiable, North Memorial used its estimated incremental borrowing rate in determining the present value of lease payments.

Most North Memorial leases include fixed rental payments with annual escalator clauses at predetermined dates. Operating lease payments are expensed on a straight-line basis over the lease term. Variable payments are not included in the measurement of the lease liability or asset and are expensed as incurred.

Lease cost includes both the fixed and variable expenses recorded for leases. The components of lease cost were as follows for the year ended December 31, 2019:

Operating lease cost (cost resulting from lease payments)	\$10,279,749
Variable lease cost (cost excluded from lease payments)	5,473,320

Operating cash paid for operating leases for the year ended December 31, 2019, was \$7,842,883. Noncash activities associated with North Memorial leases for the year ended December 31, 2019, were not significant, apart from operating lease assets of \$51,800,000 recognized on January 1, 2019, due to the adoption of ASU No. 2016-02.

The weighted-average remaining lease term and the weighted-average discount rate associated with North Memorial leases, as of December 31, 2019, were as follows:

Weighted-average remaining lease term—operating leases	6.96 years
Weighted-average remaining discount rate—operating	4.94%

Future maturities of operating lease liabilities as of December 31, 2019, were as follows:

**Years Ending
December 31**

2020	\$10,101,083
2021	9,278,718
2022	8,574,032
2023	7,590,132
2024	6,850,237
Thereafter	<u>17,416,666</u>
Total lease payments	59,810,868
Less effects of discounting	<u>9,572,831</u>
Total lease obligations	50,238,037
Less current lease obligations	<u>7,789,401</u>
Long-term lease obligations	<u><u>\$42,448,636</u></u>

Future minimum rental payments under lease commitments with a term of more than one year as of December 31, 2018, prior to North Memorial's adoption of ASU No. 2016-02 were as follows:

**Years Ending
December 31**

2019	\$ 7,801,303
2020	7,574,515
2021	7,569,045
2022	7,027,225
2023	6,017,609
Thereafter	<u>20,276,880</u>
 Total lease payments	 <u>\$56,266,577</u>

Rental expense on cancelable and noncancelable leases was approximately \$20,511,000 and \$19,814,000 in 2019 and 2018, respectively. Rental income from subleases for the year ended December 31, 2019, was approximately \$2,195,080.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

Level 1 Inputs—Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs—Inputs include directly or indirectly observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that are considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves that are observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs—Inputs include unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets, liabilities, or related observable inputs that can be corroborated at the measurement date. Unobservable inputs reflect North Memorial's own judgment about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets include financial instruments whose values are determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, common stocks, equity mutual funds, and fixed-income mutual funds. Level 2 investments represent pooled funds invested primarily in debt securities and collateral received under securities lending agreements invested primarily in debt securities. The fair value of such pooled funds is generally based on NAV per fund share (the unit of account), derived from the quoted prices in active market of the underlying securities.

Financial assets and liabilities measured at fair value on a recurring basis, by type of inputs applicable to the fair value measurements, as of December 31, 2019 and 2018, consisted of the following:

Description	2019			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value investments:				
Cash and cash equivalents	\$ 8,665,181	\$ 8,665,181	\$ -	\$ -
Equity securities:				
Small- and mid-cap equities	33,381,988	33,381,988	-	-
Large-cap equities	-	-	-	-
Equity mutual funds:				
Large-cap equities	68,251,191	68,251,191	-	-
International equities	50,374,210	50,374,210	-	-
Bond mutual funds	106,460,661	106,460,661	-	-
Pending investment settlements receivable	<u>332,151</u>	<u>332,151</u>	<u>-</u>	<u>-</u>
Total recurring fair value investments	267,465,382	<u>\$267,465,382</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued interest	107,385			
Assets valued at NAV ^(a)	<u>95,402,632</u>			
Total investments	<u>\$362,975,399</u>			
Deferred compensation assets/liabilities	<u>\$ 138,241</u>	<u>\$ 137,942</u>	<u>\$299</u>	<u>\$ -</u>

^(a) In accordance with Subtopic 820-10, *Fair Value Measurements and Disclosures*, certain investments that are measured at fair value using the NAV (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

Description	2018			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value investments:				
Cash and cash equivalents	\$ 6,280,257	\$ 6,280,257	\$ -	\$ -
Equity securities:				
Small- and mid-cap equities	25,982,000	25,982,000	-	-
Large-cap equities	446,123	446,123	-	-
Equity mutual funds:				
Large-cap equities	54,839,189	54,839,189	-	-
International equities	40,961,496	40,961,496	-	-
Bond mutual funds	68,765,491	68,765,491	-	-
Pending investment settlements receivable	<u>265,582</u>	<u>265,582</u>	<u>-</u>	<u>-</u>
Total recurring fair value investments	197,540,138	<u>\$197,540,138</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued interest	32,448			
Assets valued at NAV ^(a)	<u>113,466,326</u>			
Total investments	<u>\$311,038,912</u>			
Deferred compensation assets/liabilities	<u>\$ 278,248</u>	<u>\$ 277,949</u>	<u>\$ 299</u>	<u>\$ -</u>

^(a) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

North Memorial's investments do not have redemption or other restrictions, with the exception of the investments in the alternative investment and REIT.

For the years end December 31, 2019 and 2018, there were no transfers in or out of Levels 1, 2, or 3.

North Memorial holds interest in an alternative investment and an REIT where the fair value of the investments held is estimated based on the NAV of the fund. The following table summarizes the attributes relating to the nature of the risk of such investment at December 31, 2019 and 2018:

Fair Value Estimated Using Net Asset Value per Share				
December 31, 2019				
Investment	Fair Value *	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative investment	\$ 65,939,017	\$ -	Monthly	5 days
REIT	29,463,615	-	Quarterly	30 days
Collective bond fund	<u>-</u>	<u>-</u>	Monthly	30 days
Total	<u>\$ 95,402,632</u>	<u>\$ -</u>		

Fair Value Estimated Using Net Asset Value per Share				
December 31, 2018				
Investment	Fair Value *	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative investment	\$ 57,186,566	\$ -	Monthly	5 days
REIT	28,633,998	-	Quarterly	30 days
Collective bond fund	<u>27,645,762</u>	<u>-</u>	Monthly	30 days
Total	<u>\$ 113,466,326</u>	<u>\$ -</u>		

* The fair values of the investments have been estimated using the NAV of the investment.

The alternative investments are managed as two collective funds by Parametric Portfolio Associates (Parametric). One investment consists of 50% short-term treasuries, Standard and Poor's 500 (S&P 500) index futures with a notional value equal to 50% of the investment and puts and calls around the S&P 500 index. The other investment consists of 50% short-term treasuries, All Country World Index excluding USA futures (ACWI ex USA) with a notional value equal to 50% of the investment and puts and calls around the ACWI ex USA. The 50% not invested in treasuries is used as a margin fund for the futures positions and purchasing puts. Additional cash is raised by selling calls. The goal of each fund is to equal or exceed the return of the fund's respective benchmark over a full market cycle with 40% lower volatility. The individual treasuries, index futures, puts, and calls are marked to market daily. The investments are highly liquid. New investments/redemptions are limited biweekly. The NAV of the fund is determined by Parametric and is calculated at the close of business on the last business day of each month by adding the value of the fund's assets, less the fund's liabilities.

North Memorial's investment in an REIT is valued at estimated fair value based on the proportionate share of the REIT's fair value as recorded in the REIT's audited fair value financial statements based on discounted cash flows of property income adjusted for terminal capitalization rates, discount rates, rental data, capital expenditures and other lease incentives, and growth assumptions that are derived from market transactions, as

well as other financial and industry market data. The REIT invests primarily in real estate. The REIT allocates gains, losses, and expenses to the partners based on the ownership percentage as described in the partnership agreement.

North Memorial's investment in a collective bond fund (Babson) is managed by a trustee. The Babson trustee computes an NAV for the fund assets, which is provided to Wells Fargo Bank, N.A. The estimated fair value is calculated using the NAV times the number of shares. North Memorial exited this fund during 2019 and moved the proceeds to the other fixed income managers.

The carrying value of financial instruments classified as current assets and current liabilities is a reasonable estimate of their fair values due to their short-term nature.

The estimated fair value of the Series 2017 A and B bonds and the OMC mortgage approximates carrying value at December 31, 2019 and 2018. The estimated fair value of the Series 2015 bonds at December 31, 2019 and 2018, was \$45,811,007 and \$44,597,161, respectively. The estimated fair value of the Series 2017 bonds at December 31, 2019 and 2018, was \$126,383,238 and \$124,141,931, respectively. The estimated fair value of North Memorial's debt is based on discounted cash flows at current market rates for similar debt at December 31, 2019 and 2018. The estimated fair value of the capital lease obligations was approximately \$0 and \$359,000 at December 31, 2019 and 2018, respectively. The estimated fair value is determined based on current borrowing rates available to management for similar type of debt issues.

12. BENEFIT PLANS

Defined Benefit Pension Plans—North Memorial has a qualified defined benefit pension plan covering substantially all employees as of February 28, 1999, except those covered by bargaining agreements and seasonal or part-time employees. The plan provides pension benefits based on years of service and the employee's highest compensation during five consecutive years of employment. It is the policy of North Memorial to contribute annually the amount necessary to prevent a deficiency in the plan's funding standard account. Effective February 28, 1999, the qualified defined benefit pension plan was amended to suspend the accrual of additional benefits for future service. North Memorial's employees will retain their vested benefits, which will be paid according to the provisions of the plan.

North Memorial has a nonqualified defined benefit pension plan covering certain current and former executives. The Supplemental Plan (SERP) benefit is payable as a lump sum or an annuity when the vesting date is reached. The amounts recognized in the consolidated statements of operations for the SERP during 2019 and 2018 were \$252,651 and \$246,999, respectively.

The information for the defined benefit pension plans as of and for the years ended December 31, 2019 and 2018, is as follows:

	Qualified Plan		Nonqualified Plans	
	2019	2018	2019	2018
Change in projected benefit obligation:				
Projected benefit obligation—beginning of year	\$ 58,339,525	\$ 66,697,751	\$ 3,678,323	\$ 4,032,779
Service cost	150,000	150,000	-	-
Interest cost	2,209,897	2,177,946	144,259	130,229
Actuarial gain (loss)	5,013,307	(3,727,372)	269,721	(73,930)
Benefits paid	(3,796,452)	(3,468,643)	(410,755)	(410,755)
Settlements	<u>(2,578,722)</u>	<u>(3,490,157)</u>	<u>-</u>	<u>-</u>
Projected benefit obligation—end of year	<u>59,337,555</u>	<u>58,339,525</u>	<u>3,681,548</u>	<u>3,678,323</u>
Change in plan assets:				
Fair value of assets—beginning of year	45,734,414	54,414,070	-	-
Actual return on assets	7,897,243	(2,356,856)	-	-
Employer contribution	1,875,000	636,000	410,755	410,755
Benefits and settlements paid	<u>(6,375,174)</u>	<u>(6,958,800)</u>	<u>(410,755)</u>	<u>(410,755)</u>
Fair value of assets—end of year	<u>49,131,483</u>	<u>45,734,414</u>	<u>-</u>	<u>-</u>
Funded status—end of year	<u>\$ (10,206,072)</u>	<u>\$ (12,605,111)</u>	<u>\$ (3,681,548)</u>	<u>\$ (3,678,323)</u>
Amounts recognized in the consolidated statements of financial position:				
Current liabilities	\$ -	\$ -	\$ (397,142)	\$ (396,282)
Noncurrent liabilities	<u>(10,206,072)</u>	<u>(12,605,111)</u>	<u>(2,184,406)</u>	<u>(3,282,041)</u>
Net amount recognized	<u>\$ (10,206,072)</u>	<u>\$ (12,605,111)</u>	<u>\$ (2,581,548)</u>	<u>\$ (3,678,323)</u>
Amounts recognized in change in net assets—net gain (loss)	<u>\$ 2,703,836</u>	<u>\$ 691,561</u>	<u>\$ (161,329)</u>	<u>\$ 190,700</u>
Components of net periodic pension cost:				
Service cost	\$ 150,000	\$ 150,000	\$ -	\$ -
Interest cost	2,209,897	2,177,946	144,259	130,229
Expected return on assets	(2,778,316)	(3,382,496)	-	-
Amortization of unrecognized net loss	2,598,216	1,905,999	-	-
Amortization of unrecognized prior service benefit	<u>-</u>	<u>-</u>	<u>108,392</u>	<u>116,770</u>
Net periodic pension cost	<u>\$ 2,179,797</u>	<u>\$ 851,449</u>	<u>\$ 252,651</u>	<u>\$ 246,999</u>

	Qualified Plan		SERP	
	2019	2018	2019	2018
Weighted-average assumptions:				
Used to determine benefit obligation at December 31:				
Discount rate	3.38 %	4.33 %	3.19 %	4.15 %
Rate of increase in compensation	N/A	N/A	N/A	N/A
Used to determine net periodic benefit cost for the year ended December 31:				
Discount rate	4.33	3.64	4.15	3.40
Long-term rate of return on assets	6.80	6.80	N/A	N/A

To determine the expected long-term rate of return on assets assumption, North Memorial considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The qualified defined benefit pension plan weighted-average asset allocations for equity securities, debt securities, real estate/property, and alternatives was 44%, 24%, 12%, and 20%, respectively, at December 31, 2019. The qualified defined benefit pension plan weighted-average asset allocations for equity securities, debt securities, real estate/property, and alternatives was 46%, 18%, 13%, and 23%, respectively, at December 31, 2018.

The following objectives guide the decisions and investment strategy of North Memorial's Pension Committee (the "Pension Committee") for the qualified defined benefit pension plan: (1) the plan has a life limited to the life span of employees in the plan as of the freeze date of January 1, 1999, (2) the plan will meet the pension benefit obligations of North Memorial for the employee group covered by the plan, (3) the plan assets will be invested with the objective of meeting current and future payment requirements within acceptable risk parameters, and (4) the Pension Committee has expressed its desire to terminate the plan at such time as the assets would fully fund a lump-sum payout as defined under the Employee Retirement Income Security Act of 1974 or transfer of the obligation through the purchase of annuities.

The asset allocation strategy contains guideline percentages, at market value, of the total plan assets invested in various asset classes and includes ranges for each class. Asset classes are allowed to fluctuate within the approved ranges and are rebalanced when a class falls outside the acceptable range. The Pension Committee may also make tactical decisions to overweight certain asset classes within the approved ranges. The current asset allocation is as follows:

Asset Class	Strategic Target	Target Range
US equities	24 %	19–29 %
International equities	16	11–21
Fixed-income securities	30	25–35
Marketable alternatives	20	15–25
Private equity real estate	10	5–15

Accounting guidance establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market

assumptions, and for disclosures about fair value measurements. The Plan classifies its investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market, but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets or liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Financial assets of the qualified plan measured at fair value on a recurring basis, by type at December 31, 2019 and 2018, are set forth by level within the fair value hierarchy. The assets of qualified plan exclude net unsettled funds of \$614,111 and \$452,150 for 2019 and 2018, respectively.

Description	2019			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 133,225	\$ 133,225	\$ -	\$ -
Bond mutual funds	10,906,610	10,906,610	-	-
Equity mutual funds:				
Large-cap equities	7,943,560	7,943,560	-	-
International equities	8,745,995	8,745,995	-	-
Common stock—small- and mid-cap equities	<u>4,919,775</u>	<u>4,919,775</u>	<u>-</u>	<u>-</u>
Total recurring fair value measurements	32,649,165	<u>\$32,649,165</u>	<u>\$ -</u>	<u>\$ -</u>
Assets valued at NAV ^(a)	<u>15,868,207</u>			
Total pension plan assets	<u>\$48,517,372</u>			

^(a) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of changes in net assets.

Description	Total	2018		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 261,763	\$ 261,763	\$ -	\$ -
Bond mutual funds	5,272,775	5,272,775	-	-
Equity mutual funds:				
Large-cap equities	7,477,967	7,477,967	-	-
International equities	7,712,214	7,712,214	-	-
Common stock—small- and mid-cap equities	<u>5,766,704</u>	<u>5,766,704</u>	<u>-</u>	<u>-</u>
Total recurring fair value measurements	26,491,423	<u>\$26,491,423</u>	<u>\$ -</u>	<u>\$ -</u>
Assets valued at NAV ^(a)	<u>18,790,841</u>			
Total pension plan assets	<u>\$45,282,264</u>			

^(a) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of changes in net assets.

For the years ended December 31, 2019 and 2018, there were no transfers in or out of Levels 1, 2, or 3.

The Plan's investments do not have redemption or other restrictions, with the exception of the investments in the alternative investment, REIT, and collective bond fund.

A summary of the plan's investments at December 31, 2019 and 2018, in which fair value is estimated based on the NAV is as follows:

Fair Value Estimated Using Net Asset Value per Share December 31, 2019				
Investment	Fair Value*	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative investment	\$ 9,987,417	\$ -	Monthly	5 days
REIT	5,880,790	-	Quarterly	30 days
Collective bond fund	-	-	Monthly	30 days
Total	<u>\$15,868,207</u>	<u>\$ -</u>		

Fair Value Estimated Using Net Asset Value per Share December 31, 2018				
Investment	Fair Value*	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative investment	\$10,651,114	\$ -	Monthly	5 days
REIT	5,715,203	-	Quarterly	30 days
Collective bond fund	<u>2,424,524</u>	-	Monthly	30 days
Total	<u>\$18,790,841</u>	<u>\$ -</u>		

* The fair values of the investments have been estimated using the NAV of the investment.

The alternative investments are managed as two collective funds by Parametric. One investment consists of 50% short-term treasuries, S&P 500 index futures with a notional value equal to 50% of the investment, and puts and calls around the S&P 500 index. The other investment consists of 50% short-term treasuries, ACWI ex USA futures with a notional value equal to 50% of the investment and puts and calls around the ACWI ex USA futures. The 50% not invested in treasuries is used as a margin fund for the futures positions and purchasing puts. Additional cash is raised by selling calls. The goal of each fund is to equal or exceed the return of the fund's respective benchmark over a full market cycle with 40% lower volatility. The individual treasuries, index futures, puts, and calls are marketed to market daily. The investments are highly liquid. New investments/redemptions are limited biweekly. The NAV of the fund is determined by Parametric and is calculated at the close of business on the last business day of each month by adding the value of the fund's assets, less the fund's liabilities.

The plan's investment in an REIT is valued at estimated fair value based on the proportionate share of the REIT's fair value as recorded in the REIT's audited fair value financial statements based on discounted cash flows of property income adjusted for terminal capitalization rates, discount rates, rental data, capital expenditures and other lease incentives, and growth assumptions, which are derived from market transactions, as well as other financial and industry market data. The REIT invests primarily in real estate. The REIT allocates gains, losses, and expenses to the partners based on the ownership percentage as described in the partnership agreement.

The plan's investment in the collective bond fund (Babson) is managed by a trustee. The Babson trustee computes an NAV for the fund assets, which is provided to Wells Fargo Bank, N.A. The estimated fair value is calculated using the NAV times the number of

shares. North Memorial exited this fund during 2019 and moved the proceeds to the other fixed income managers.

Contributions to the qualified and nonqualified pension plans are expected to be \$2,500,000 and \$403,427, respectively, in 2020. Benefit payments for the qualified and nonqualified plans, which reflect expected future service, as appropriate, as of December 31, 2020, are expected to be paid as follows:

Years Ending December 31	Qualified Plan	Nonqualified Plans
2020	\$ 6,784,694	\$ 403,427
2021	5,631,479	386,989
2022	5,233,639	369,585
2023	4,895,890	351,250
2024	4,465,893	332,041
2025–2029	19,162,547	1,348,357

Defined Contribution Plans—North Memorial has a defined contribution money purchase plan for noncontract employees. Employees must complete one year of continuous service, as defined in the plan document, to become a participant. Under the plan, North Memorial contributes a certain percentage of an eligible employee’s wages to the plan, which will be held in an account until paid to the employee upon retirement or termination. North Memorial contributed \$6,397,029 and \$6,107,658 in 2019 and 2018, respectively, to the defined contribution Money Purchase plan.

Effective January 1, 2012, North Memorial adopted a Safe Harbor 401(k) Plan. Under the safe harbor provisions, North Memorial matches 100% of certain noncontract employee contributions on the first 3% of covered compensation and 50% of the contributions between 3% to 5% of covered compensation, subject to certain Code limitations. The union contract determines the amount of matching contribution for contract employees who participate in the plan. The Plan did not elect safe harbor provisions for contract employees. North Memorial contributed \$11,814,567 and \$11,434,996 in 2019 and 2018, respectively, to the 401(k) plan.

Multiemployer Pension Plan—North Memorial contributes to a union-sponsored multiemployer pension plan under the terms of a collective bargaining agreement. Contributions are determined in accordance with the provisions of the negotiated labor contract and generally are based on salary and the number of hours worked. The risks of participating in a multiemployer plan are different from a single-employer plan in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If North Memorial chooses to stop participating in its multiemployer plan, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

North Memorial's participation in the plan for the year ended December 31, 2019, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2020 and 2019 is for the plan's year-end at December 31, 2019 and 2018, respectively. The zone status is based on information that North Memorial received from the plan. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective bargaining agreement to which the plan is subject. There have been no significant changes that affect the comparability of 2019 and 2018 contributions.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status ^(a)		FIP/RP Status Pending/Implemented	Contributions for the Years Ended December 31,		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		January 1, 2019	2018		2019	2018		
		Twin Cities Hospitals—Minnesota Nurses Association	41-6184922					

^(a) The plan's funding level on January 1, 2019, is determined based on the actual December 31, 2018, asset values and projected liabilities as of January 1, 2019, that are a rollforward of liabilities from the previous valuation date of January 1, 2018, assuming no actuarial gains/losses occur during the period.

In January 2020, North Memorial contributed approximately \$8,860,000 to the Twin City Hospitals—Minnesota Nurses Association Pension Plan for 2020, which is North Memorial's proportionate share of the minimum contribution requirement according to the collective bargaining agreement. North Memorial may be contingently liable for its share of the plan's unfunded vested liabilities. North Memorial's estimated withdrawal liability as of December 31, 2019, was approximately \$22,400,000. The plan has not been terminated, nor has North Memorial undertaken to withdraw from participation; therefore, no liability is recorded in the consolidated financial statements.

North Memorial was listed in the Twin City Hospitals—Minnesota Nurses Association Pension Plan Form 5500 as providing more than 5% of the total contributions for the plan year ended December 31, 2018. At the date the consolidated financial statements were issued, Forms 5500 were not available for the plan year ended in 2019.

Postretirement Health Care Plan—North Memorial has postretirement medical benefit plans for certain retired nurses between the ages of 55 and 65, with 10 years or more of service, and select employees offered early retirement during 1997. North Memorial offers continuation of the current medical insurance benefits to these retirees at 100% of the active Consolidated Omnibus Budget Reconciliation Act (COBRA) rate. The amounts recognized in the consolidated statements of operations for the years ended December 31, 2019 and 2018, were \$86,926 and \$64,580, respectively.

The accumulated postretirement benefit obligation was \$1,941,027 and \$1,496,198 as of December 31, 2019 and 2018, respectively, and is included in accrued salaries and other liabilities in the consolidated statements of financial position. The postretirement health care benefit plans are unfunded.

For measurement purposes, a 3.15% discount rate in 2019 and 4.15% in 2018 was assumed. The annual health care cost increase assumed 6.5% per year for the four years from 2019 through 2022, then reducing 0.5%, per year for three years, reaching 5.0% in 2025 and after.

Other Plans—North Memorial offers certain key executives and employed physicians deferred compensation plans created in accordance with applicable provisions of the Code. The plans permit qualifying employees to defer a portion of their salary until future years. The accumulated deferred compensation balance is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plans and all income attributable to those amounts (until paid or made available to the employee or other beneficiary) are solely the property and rights of North Memorial (not restricted to the payment of benefits under the plan), subject only to the claim of general creditors. Participants' rights under the plans are equal to those of general creditors of North Memorial in an amount equal to the fair market value of the deferred account for each participant. The related assets and liabilities, totaling \$138,241 and \$278,248 as of December 31, 2019 and 2018, respectively, are reported at contract value, which approximates fair value, and are included in other liabilities—pension and benefit obligation.

Health and welfare, medical, dental, long-term disability, and life insurance benefits are provided for certain employees and are funded by employer and employee contributions. North Memorial's contribution to the plans was approximately \$50,060,000 and \$51,920,000 for 2019 and 2018, respectively.

13. COMMITMENTS AND CONTINGENCIES

Insurance—North Memorial purchases primary professional liability coverage on a first-dollar basis from AHAL, North Memorial's wholly owned captive insurance company domiciled in Bermuda. The consolidated financial statements include the investments held for professional liability claims, claims payments, and estimated professional liability reserves. The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on past experience and an actuarial report, for future development of reported losses. These estimates are continually reviewed and are subject to the impact of future changes in such factors as claim severity and frequency. Although management has made its best estimate of the liability for losses and loss adjustment expenses using the available information, ultimate settlement could vary significantly from such liability. Any adjustments to recorded liabilities will be reflected in the periods in which they become known.

Annual premiums paid to the captive for the professional liability coverage were approximately \$990,000 and \$990,000 in 2019 and 2018, respectively. AHAL insures North Memorial for hospital professional liability for \$2 million for each claim and \$4 million in the annual aggregate. In addition, North Memorial purchases excess professional liability insurance with a \$20 million limit from commercial carriers. MGH purchases professional liability insurance on a first-dollar basis from a commercial carrier, with limits of \$1 million per occurrence and \$3 million annual aggregate and a \$20 million excess professional liability policy from a commercial carrier. North Memorial and MGH also purchase a shared \$20 million liability policy in excess of the individual liability limits.

North Memorial also purchases professional liability primary and excess coverage for employed physicians, general liability and umbrella coverage, auto, insurance, property and business interruption insurance, directors' and officers' liability, and helicopter liability coverage from commercial carriers.

North Memorial was self-insured for workers' compensation prior to November 30, 1997, up to the Workers' Compensation Reinsurance Association retention limit, which varied at levels up to \$580,000. North Memorial has secured its obligation to the state of Minnesota with a restricted deposit account totaling \$573,051 and \$561,467 at December 31, 2019 and 2018, respectively, and is included in cash and cash equivalents in the consolidated statements of financial position.

As of December 1, 1997, North Memorial purchased workers' compensation insurance from a commercial carrier with a \$750,000 per claim retention and a maximum annual loss of \$16.8 million. North Memorial purchases insurance from AHAL for the retained exposure. MGH purchases worker's compensation from a commercial carrier with a \$250,000 per-claim limit and a maximum annual loss of \$1.5 million.

Litigation—North Memorial is involved in certain litigation arising during the normal course of conducting business. Management does not believe any material adverse financial impact will result from these legal proceedings.

Regulatory Environment—The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, which represent a total of 46% and 47% of total net patient service revenue for 2019 and 2018, respectively, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal and state government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues for patient services. Management believes that North Memorial is in substantial compliance with current laws and regulations.

Debt Guarantees—In accordance with GAAP, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee with the exception for guarantees entered into prior to fiscal year 2002. North Memorial has evaluated the risks associated with each of the guarantees and has deemed them to be insignificant and, therefore, has not recorded any liabilities related to the debt guarantees.

North Radiation Therapy Center, LLC—North Memorial has a 50% interest in North Radiation Therapy Center, LLC, which has debt outstanding of \$1,158,514 as of December 31, 2019. North Memorial has guaranteed 50% of the payments on this debt.

CDI Roseville, LLC—North Memorial has a 25% interest in CDI Roseville, LLC that has debt outstanding of \$321,418 as of December 31, 2019. North Memorial has guaranteed 25% of the payments on this debt.

14. NET ASSETS WITH DONOR RESTRICTIONS

	2019	2018
Net assets subject to expenditures for specific purposes:		
Oncology	\$ 745,099	\$1,093,258
Mental Health	493,165	494,698
Maple Grove Hospital	395,083	111,302
Women and Children	391,975	154,173
Hospice	256,997	233,273
Medical Transportation	226,568	158,281
Team Member Assistance and Bereavement	167,165	160,722
Emergency Medical Service	147,709	142,610
Oral and Maxillofacial Surgery	126,068	122,427
Pastoral Care	118,638	116,719
Rehab Services	87,276	101,856
Various Education	62,556	61,412
Heart and Vascular	46,876	58,323
North Lodge Housing	4,112	58,554
Patient Experience Fund	1,952	73,112
Miscellaneous	<u>252,477</u>	<u>233,945</u>
	<u>3,523,716</u>	<u>3,374,665</u>
Net assets to be held in perpetuity:		
Endowments, income restricted by donors	2,421,814	2,108,229
Endowments, income not restricted by donors	<u>1,112,170</u>	<u>811,422</u>
	<u>3,533,984</u>	<u>2,919,651</u>
Net assets with donor restrictions	<u>\$7,057,700</u>	<u>\$6,294,316</u>

Changes in net assets with donor restrictions that are to be held in perpetuity for the year ended December 31, 2019, were as follows:

	2019	2018
Beginning of year	\$2,919,651	\$3,344,060
Contributions	7,303	82,063
Investment gains	659,124	(444,361)
Net assets released from restrictions	<u>(52,094)</u>	<u>(62,111)</u>
End of year	<u>\$3,533,984</u>	<u>\$2,919,651</u>

Available endowment earnings are appropriated in accordance with donor restrictions. There are no deficiencies reported in net assets with donor restrictions as of December 31, 2019.

Net assets are released from restrictions by incurring expenses or acquiring property and equipment that meet the requirements of donor restriction. Net assets released from restriction for the year ended December 31, 2019, for the various purposes are as follows:

	2019	2018
Operating expenses	\$ 693,300	\$873,090
Capital items	<u>611,735</u>	<u>9,970</u>
	<u>\$1,305,035</u>	<u>\$883,060</u>

15. FUNCTIONAL EXPENSES

North Memorial provides general health care services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations for the years ended December 31, 2019 and 2018. Those expenses are segregated into Health Care Services, which relate to direct patient care; and Support Services, such as general and administrative expenses. The expenses are as follows:

	2019						
	Health Care Services				Support Services		
	North Memorial Health	Maple Grove	Clinic Services	Ambulance Services	Shared Services	Corporate	Total
Salaries	\$238,144,958	\$ 79,131,878	\$110,601,408	\$53,027,518	\$ 68,960,392	\$ 12,933,381	\$562,799,535
Supplies	82,479,884	26,428,987	31,273,930	2,948,141	905,294	(456,737)	143,579,499
Professional fees	49,420,518	37,250,592	11,204,921	1,732,839	20,552,043	(18,935,445)	101,225,468
Depreciation and amortization	13,422,751	7,634,838	4,402,601	4,992,323	4,724,270	5,414,254	40,591,037
Maintenance and repairs	8,802,915	3,192,535	993,653	6,070,410	15,370,109	1,565,775	35,995,397
Patient service tax	8,090,209	5,189,430	2,493,172	911,971	-	(80,744)	16,604,038
Interest	-	4,568,751	-	-	-	4,556,685	9,125,436
Equipment/building rental	4,430,733	1,078,174	13,977,321	1,484,472	1,637,590	(2,096,969)	20,511,321
Utilities	2,751,956	995,071	361,800	2,948,895	886,224	1,365,376	9,309,322
Insurance and other	<u>3,183,383</u>	<u>2,737,154</u>	<u>1,690,964</u>	<u>2,953,209</u>	<u>2,395,978</u>	<u>7,579,166</u>	<u>20,539,854</u>
Total expense	<u>\$410,727,307</u>	<u>\$168,207,410</u>	<u>\$176,999,770</u>	<u>\$77,069,778</u>	<u>\$115,431,900</u>	<u>\$ 11,844,742</u>	<u>\$960,280,907</u>
	2018						
	Health Care Services				Support Services		
	North Memorial Health	Maple Grove	Clinic Services	Ambulance Services	Shared Services	Corporate	Total
Salaries	\$239,605,028	\$ 73,660,146	\$118,850,030	\$53,781,558	\$ 72,128,172	\$ 11,925,171	\$569,950,105
Supplies	79,210,190	24,537,981	26,729,606	2,176,511	835,712	1,063,065	134,553,065
Professional fees	27,186,308	43,415,437	14,019,386	1,284,795	22,247,059	2,818,871	110,971,856
Depreciation and amortization	13,625,098	7,702,629	4,482,009	4,152,643	5,151,933	4,307,658	39,421,970
Maintenance and repairs	9,654,230	2,879,183	1,191,155	5,568,387	14,519,270	1,454,580	35,266,805
Patient service tax	1,154,268	5,629,865	1,338,388	921,083	-	10,528,575	19,572,179
Interest	-	4,685,958	-	-	-	4,871,256	9,557,214
Equipment/building rental	1,439,237	1,009,717	13,830,940	1,299,669	1,623,822	633,377	19,836,762
Utilities	2,990,201	1,173,616	291,165	3,222,263	1,355,810	1,547,603	10,580,658
Insurance	<u>2,501,717</u>	<u>1,941,631</u>	<u>1,711,507</u>	<u>2,113,413</u>	<u>2,566,600</u>	<u>5,113,666</u>	<u>15,948,534</u>
Total expense	<u>\$377,366,277</u>	<u>\$166,636,163</u>	<u>\$182,444,186</u>	<u>\$74,520,322</u>	<u>\$120,428,378</u>	<u>\$ 44,263,822</u>	<u>\$965,659,148</u>

16. RELATED PARTY

The related-party transactions and balances as of and for the years ended December 31, 2019 and 2018, are summarized as follows:

	2019	2018
Consolidated statements of financial position—other receivables—due from affiliates	\$ 372,770	\$ 385,058
Consolidated statements of operations—other operating revenue:		
Rental income earned from affiliates	4,446,019	4,045,567
Contract services earned from affiliates	1,128,369	1,147,936

17. JOINT VENTURES

North Memorial maintains investments in various entities, which are being accounted for under the equity method of accounting. These entities are generally involved in health care and insurance-related activities. The financial information of North Memorial's equity investments as of and for the years ended December 31, 2019 and 2018, is summarized as follows:

	2019	2018
Revenue	\$110,109,711	\$115,348,059
Operating expenses and other	94,767,986	98,312,063
Net income	15,341,725	17,035,996
Total assets	57,711,030	57,150,451
Total liabilities	25,062,799	24,586,044

In 2018, North Memorial Clinics, LLC entered into a shareholder control agreement for 50% ownership interest in Northwest Family Physicians, PA. North Memorial Clinics, LLC owns the Series A preferred stock in Northwest Family Physicians, PA. North Memorial owns 100% of North Memorial Clinics, LLC.

In 2018, North Memorial entered into an agreement with Health Systems Cooperative Laundries (HSCL), a Minnesota cooperative association. North Memorial purchased one share or 11% of the voting rights in HSCL's common stock. North Memorial shall pay HSCL for laundry services provided in accordance with the rate schedule established from time to time by the board of directors of HSCL and provided in writing to North Memorial.

As part of the acquisition of Multicare Associates, LLC in 2017, North Memorial entered into a membership interest purchase agreement for a 50% ownership interest in Multicare Sleep Center, LLC for a total purchase price of \$130,000. In 2019, North Memorial's ownership interest was redeemed in full by Multicare Sleep Center, LLC.

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SUPPLEMENTAL SCHEDULES

NORTH MEMORIAL HEALTH CARE AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION AS OF DECEMBER 31, 2019

	North Memorial Health Care	Maple Grove Hospital Corporation	Eliminations	2019
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ (4,800,385)	\$ 35,708,468	\$ -	\$ 30,908,083
Restricted cash	838,062	-	-	838,062
Patient accounts receivable, less allowances	75,660,037	29,929,774	-	105,589,811
Other receivables	19,393,613	3,383,503	(1,640,334)	21,136,782
Inventories of supplies	8,144,025	2,354,247	-	10,498,272
Prepaid expenses	9,244,158	656,522	-	9,900,680
Estimated third-party payor settlement	518,919	289,820	-	808,739
Assets limited as to use	2,008,180	-	-	2,008,180
Current assets held for sale	<u>31,104,532</u>	<u>-</u>	<u>-</u>	<u>31,104,532</u>
Total current assets	<u>142,111,141</u>	<u>72,322,334</u>	<u>(1,640,334)</u>	<u>212,793,141</u>
ASSETS LIMITED AS TO USE:				
Investments for capital improvements	327,537,083	11,174,514	-	338,711,597
Pending investment settlements receivable	<u>332,151</u>	<u>-</u>	<u>-</u>	<u>332,151</u>
Total board designated	327,869,234	11,174,514	-	339,043,748
Held by trustee under bond indenture agreement	775,806	2,056,924	-	2,832,730
Investments held for professional liability claims	9,678,002	-	-	9,678,002
Restricted investments	<u>9,412,739</u>	<u>-</u>	<u>-</u>	<u>9,412,739</u>
Total assets limited as to use	<u>347,735,781</u>	<u>13,231,438</u>	<u>-</u>	<u>360,967,219</u>
LAND, BUILDINGS, AND EQUIPMENT—				
Net	<u>175,070,263</u>	<u>84,722,017</u>	<u>(192,117)</u>	<u>259,600,163</u>
OPERATING LEASE "RIGHT TO USE" ASSETS				
	<u>45,038,601</u>	<u>8,524</u>	<u>-</u>	<u>45,047,125</u>
OTHER ASSETS				
	<u>29,106,327</u>	<u>4,187,000</u>	<u>-</u>	<u>33,293,327</u>
TOTAL	<u>\$739,062,113</u>	<u>\$174,471,313</u>	<u>\$ (1,832,451)</u>	<u>\$911,700,975</u>

See note to supplemental financial schedule information.

(Continued)

NORTH MEMORIAL HEALTH CARE AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION AS OF DECEMBER 31, 2019

	North Memorial Health Care	Maple Grove Hospital Corporation	Eliminations	2019
LIABILITIES				
CURRENT LIABILITIES:				
Current maturities of long-term debt	\$ 8,739,032	\$ 4,535,582	\$ -	\$ 13,274,614
Line of credit	-	-	-	-
Current operating lease liability	7,789,401	-	-	7,789,401
Current liabilities held for sale	3,589,765	-	-	3,589,765
Accounts payable	30,479,273	8,204,998	(441,800)	38,242,471
Deposit liability	16,000,000	-	-	16,000,000
Accrued expenses:				
Salaries and benefits	20,281,006	3,964,453	-	24,245,459
Vacation pay	16,651,597	2,655,728	-	19,307,325
Other	<u>3,553,060</u>	<u>2,020,699</u>	<u>(1,198,534)</u>	<u>4,375,225</u>
Total current liabilities	107,083,134	21,381,460	(1,640,334)	126,824,260
OTHER LONG-TERM LIABILITIES	23,506,987	3,432	-	23,510,419
NONCURRENT OPERATING LEASE LIABILITY	42,439,998	8,638	-	42,448,636
LONG-TERM DEBT—Less current maturities	<u>94,885,050</u>	<u>114,414,505</u>	<u>-</u>	<u>209,299,555</u>
Total liabilities	<u>267,915,169</u>	<u>135,808,035</u>	<u>(1,640,334)</u>	<u>402,082,870</u>
NET ASSETS:				
Without restrictions	464,089,244	38,663,278	(8,566,066)	494,186,456
With restrictions	7,057,700	-	-	7,057,700
Noncontrolling interest in Maple Grove Hospital	-	-	9,666,036	9,666,036
Noncontrolling interest in Minnetonka ASC	<u>-</u>	<u>-</u>	<u>(1,292,087)</u>	<u>(1,292,087)</u>
Total net assets	<u>471,146,944</u>	<u>38,663,278</u>	<u>(192,117)</u>	<u>509,618,105</u>
TOTAL	<u>\$739,062,113</u>	<u>\$174,471,313</u>	<u>\$ (1,832,451)</u>	<u>\$911,700,975</u>

See note to supplemental financial schedule information.

(Concluded)

NORTH MEMORIAL HEALTH CARE AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATING SCHEDULE OF OPERATIONS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2019

	North Memorial Health Care	Maple Grove Hospital Corporation	Eliminations	2019
UNRESTRICTED REVENUE:				
Net patient service revenue	\$ 703,664,582	\$ 199,809,657	\$ (889,777)	\$ 902,584,462
Other operating revenue	<u>116,585,259</u>	<u>1,683,945</u>	<u>(57,973,340)</u>	<u>60,295,864</u>
Total unrestricted revenue	<u>820,249,841</u>	<u>201,493,602</u>	<u>(58,863,117)</u>	<u>962,880,326</u>
EXPENSES:				
Salaries and benefits	483,667,657	79,131,878	-	562,799,535
Supplies	117,150,512	26,428,987	-	143,579,499
Professional fees	91,100,451	37,250,592	(27,125,575)	101,225,468
Depreciation and amortization	33,056,409	7,634,838	(100,210)	40,591,037
Maintenance and repairs	32,845,648	3,192,535	(42,786)	35,995,397
Patient service and other taxes	11,414,608	5,189,430	-	16,604,038
Interest	4,976,817	4,568,751	(420,132)	9,125,436
Building and equipment rental	23,877,871	1,078,174	(4,444,724)	20,511,321
Utilities	8,427,556	995,071	(113,305)	9,309,322
Insurance and other	<u>18,688,962</u>	<u>2,737,154</u>	<u>(886,262)</u>	<u>20,539,854</u>
Total expenses	<u>825,206,491</u>	<u>168,207,410</u>	<u>(33,132,994)</u>	<u>960,280,907</u>
INCOME FROM OPERATIONS	<u>(4,956,650)</u>	<u>33,286,192</u>	<u>(25,730,123)</u>	<u>2,599,419</u>
NONOPERATING INCOME (LOSS):				
Other nonoperating income (loss)	4,043,148	-	(2,843,473)	1,199,675
Investment income (loss)—net	<u>49,202,585</u>	<u>1,999,637</u>	<u>(420,132)</u>	<u>50,782,090</u>
Total nonoperating income (loss)	<u>53,245,733</u>	<u>1,999,637</u>	<u>(3,263,605)</u>	<u>51,981,765</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$ 48,289,083</u>	<u>\$ 35,285,829</u>	<u>\$(28,993,728)</u>	<u>\$ 54,581,184</u>

See note to supplemental financial schedule information.

NORTH MEMORIAL FOUNDATION

SUPPLEMENTAL SCHEDULE OF FINANCIAL POSITION INFORMATION AS OF DECEMBER 31, 2019

ASSETS

CASH	\$ 312,649
INVESTMENTS	9,412,739
OTHER RECEIVABLES	29,717
BENEFICIAL INTEREST IN REMAINDER TRUST	<u>801,211</u>
TOTAL	<u>\$10,556,316</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Amounts held for others	\$ 9,650
Accounts payable	<u>261,146</u>
Total liabilities	<u>270,796</u>

NET ASSETS:

Without restrictions	3,227,821
With restrictions	<u>7,057,699</u>
Total net assets	<u>10,285,520</u>

TOTAL	<u>\$10,556,316</u>
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See note to supplemental financial statement information.

NORTH MEMORIAL FOUNDATION

SUPPLEMENTAL SCHEDULE OF ACTIVITIES INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT:			
Contributions	\$ 869,773	\$ 579,546	\$ 1,449,319
Special event revenue	-	829,749	829,749
Cost of direct benefits to donors	-	(264,855)	(264,855)
Investment income	149,175	319,924	469,099
Net change in interest in beneficial trust	-	306,281	306,281
Net assets released from restrictions	<u>1,040,180</u>	<u>(1,040,180)</u>	<u>-</u>
Total revenues, gains, and other support	<u>2,059,128</u>	<u>730,465</u>	<u>2,789,593</u>
EXPENSES AND LOSSES:			
Program services	368,137	-	368,137
Management and general	221,566	-	221,566
Fund-raising	443,131	-	443,131
Foundation and fund-raising grants to North Memorial	<u>915,471</u>	<u>-</u>	<u>915,471</u>
Total expenses and losses	<u>1,948,305</u>	<u>-</u>	<u>1,948,305</u>
EXCESS OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES AND LOSSES	110,823	730,465	841,288
NET CHANGE IN UNREALIZED GAINS ON INVESTMENT	<u>1,025,236</u>	<u>32,918</u>	<u>1,058,154</u>
CHANGE IN NET ASSETS	1,136,059	763,383	1,899,442
NET ASSETS—Beginning of year	<u>2,091,762</u>	<u>6,294,316</u>	<u>8,386,078</u>
NET ASSETS—End of year	<u>\$3,227,821</u>	<u>\$ 7,057,699</u>	<u>\$10,285,520</u>

See note to supplemental financial statement information.

NORTH MEMORIAL HEALTH CARE AND SUBSIDIARIES

NOTE TO SUPPLEMENTAL FINANCIAL SCHEDULE INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

1. BASIS OF REPORTING

North Memorial Health Care (“North Memorial”) Information—The supplemental consolidating schedule of financial position information as of December 31, 2019, and the supplemental consolidating schedule of operations information for the year then ended presents North Memorial and its wholly owned subsidiaries, but excludes the effects of consolidating the results of Maple Grove Hospital Corporation (MGH) (which became a controlled affiliate effective September 1, 2011) and the balance of North Memorial’s investment in MGH.

MGH Information—The supplemental schedule of financial position information as of December 31, 2019, and the supplemental consolidating schedule of operations information for the year then ended presents MGH financial information on a stand-alone basis.

North Memorial Foundation Information—The supplemental schedule of financial position information as of December 31, 2019, and the supplemental schedule of activities information for the year then ended present the North Memorial Foundation financial information on a stand-alone basis.

Eliminations—The eliminations shown in the supplemental consolidating schedule of financial position information as of December 31, 2019, and the supplemental consolidating schedule of operations information for the year then ended reflect the elimination of intercompany balances and transactions.

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